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METHODS OF IMPORTING

WITH CONSIDERATION OF THE PROBLEMS OF LOCATION, WAREHOUSING, AND CARTAGE OF THE IMPORTING WHOLESALER

THESIS

for

DEGREE of M. B. A.

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INTRODUCTION

Importance of Importing

Great stress is laid upon our export trade, but our imports are seldom mentioned. It is a popular assumption that the greater the excess of our exports over our imports, the better it is for the United States.

However, the people abroad cannot buy unless they can also sell. The money they pay for our goods must be made in the production and sale of their raw materials and the commodities which they manufacture. It is an economic impossibility for a nation to be solely an exporter. The trade of the world is based upon the exchange of commodities, and "reciprocity" is the watchword of international commerce. Furthermore, the United States, wealthy as it is and diversified as are its resources, is dependent upon other nations for many of its raw materials.

A vivid illustration of this dependence is found in the steel industry. There are twenty separate items, representing sixty countries, that are used in the composition of certain types of steel. Several of them

like tin, are either not to be found in this country, or like manganese, vanadium and nickel, are produced in insufficient quantities. The steel industry has expanded to such an extent that it is absolutely dependent upon foreign sources of supply for steady and continuous maintenance of operations.

Inseparably interlocked with the steel industry is the great machine industry which manufactures automobiles, agricultural implements, foundary and machine tools, hardware, building construction materials and almost countless other products. Take the automobiles alone. Into their manufacture go foreign aluminum, imported cattle hides for cushions, and rubber for tires.

The basis of the pottery industry is kaolin clay. In the manufacture of fruit jars, glass specialties, opal and amber ware for packers and druggists, foreign sources are drawn upon to a large extent.

The rubber industry, with its many branches, is entirely dependent upon foreign sources of supply. The wool industry draws 45 to 50 per cent. of its raw materials from other countries.

A drug store indicates something of the little thought given by the average layman to the importance of imports. Crude drugs and herbs are purchased by American manufacturers from all parts of the world. The East Indies contribute vegetable oils for our bath and shaving soap; the sponge comes from the Caribbean, or the imitation from rubber that comes from Brazil or Sumatra. The toothbrush speaks of the Far East, as do the bristles in the hairbrush.

Linens for handkerchiefs, as well as flax, come from Ireland, Canada, Belgium and the Netherlands. Coffee comes from Brazil, tea from the Far East and cocoa from tropical countries.

Even our sports and amusements call to the lands afar. Rubber is necessary in baseballs, tennis balls, footballs, and gut from Japan is used for tennis racquets, while India is drawn on for the shafts of polo mallets. The list increases in cork and bamboo, rope fibre, silk fish lines, tropical gums for waterproofing and scores of others.

The film used in making motion pictures has a base in camphor from Japan and China, and requires also sensitive nitrates that come from Chile and gelatin from Germany.

Were we to be deprived of the things which foreignors sell us, all the money in the world, if placed at our disposal, would hardly enable us to satisfy our desires for them. It would be difficult to understand a calamity more far-reaching in its influence on every man, woman, and child in the United States than to have to live on the commodities that could be produced only from the raw materials obtained within our own borders.

METHODS OF PURCHASING IMPORTED GOODS ABROAD

Buying Direct

The importing firm may buy direct from the producers thru its branches established abroad, thru local representatives, or thru travelling buyers who make visits to the territories covered.

Manufactured goods are usually bought direct. Many large department stores send their buyers abroad periodically in search of late specialties and styles. Some stores maintain permanent offices not only in London, Paris and Berlin, but also in Yokohama and Shanghai. Many houses combine the two methods and establish a contact between the permanent buying offices and the home office by means of buyers who make frequent visits.

In the staples, fashions play no part - price and quality are the determining factors. Local buyers, or travelling buyers, or both are used. Travelling buyers are frequently used where the purchases are made in large quantities at auction, or as "spot" cash transactions.

Indirect Buying

In many lines, as toys, rugs and carpets, for example, the unit of production is so small that native travelling buyers, or commissionaires, collect the goods and resell them at a central place to representatives of foreign houses. The commissionaire often furnishes the producer with raw material and makes advances on the price of the goods to be produced.

This practice is carried on extensively in the Balkan States, Southern Germany, and the Levant, where house industry still exists on a large scale.

In the wool trade in Buenos Aires the baraqueo (warehouse owner) receives wool on consignment for sale to exporters, while in Australia the wool is often collected by storekeepers and travelling merchants who in turn sell it to a local broker.

In some cases such collectors pack the goods after cleaning and grading and mark them with their own trade-marks. This is done by the "baler" of jute in British India, and by the Chinese tea merchants. Similar methods are followed in most of the agricultural products.

The importer frequently buys in a foreign country goods not produced there, but imported for reexportation. Many of our imports of spices, rubber, and other products of the tropics come by way of England, Holland, or Belgium.

Before the War the fur markets of Russia, Germany, and England were large auction centers where Asiatic, Canadian, and American furs were sold to visiting buyers. American fur dealers in this roundabout way bought back American furs from European collectors. Fur auctions are now held in New York and St. Louis. Zanzibar, Bombay, Shanghai, and Singapore are also important centers of the reexporting trade.

Domestic retailers who do not wish to carry the risks of foreign trade are able to supply their needs for foreign goods by purchasing from importing wholesalers or jobbers.

Branches of Foreign Exporters

Specially advertised foreign articles are largely controlled in our markets by branch houses or agents. Such organizations, by larger shipments, can effect a

material saving in freight and other handling charges. They are thus able to sell as cheaply and with less inconvenience to the individual purchaser than if he made his selection abroad. This is especially true of the more specialized articles such as laces, silks, velvets, and also of patented or trade-mark food products such as cocoa, cheese, and canned fish.

SHIPPING AND TRANSPORTATION DETAILS

Definitions of Foreign Trade Quotations

In foreign trade there are various terms used which indicate the point at which delivery is to be taken by the consignee and the charges to be paid by the buyer and seller. All import contracts include a clause with states whether the seller must pay the freight and insurance or whether these expenses are to be borne by the buyer.

F. O. B. VESSEL

Under this term the seller must deliver the goods on board the steamer. Railroad freight, storage, delivery charges and hoisting charges are for the account of the seller. The goods must be delivered by him in sound condition to the steamer and he must secure from the steamship company a clean bill of lading. Ocean freight, marine insurance, and any other charges incidental to the shipment are for the account of the buyer.

F. A. S.

Under this term the seller agrees to deliver the goods to the steamship docks, within reach of the ship's tackle. Railroad freight, storage charges at the port of shipment and delivery charges are borne by the seller. Charges such as ocean freight and insurance must be paid by the buyer. If the shipment consists of "heavy lift" cargo, the cost of hoisting the goods aboard the steamer is for the account of the buyer. Steamship companies do not charge for loading the ordinary size package. However, if a case weighs over 4480 pounds, the steamship company will add a charge for loading.

C. I. F. Port of Destination

The letters c.i.f. stand for "cost, insurance, and freight". Under this term the seller assumes all charges for making the shipment to the port of destination. In buying goods on this basis the importer knows just what his cost is up to the time the goods are unloaded by the steamship company at the port of destination. The seller assumes the risk of fluctuation in ocean

freight rates and in insurance rates. Ocean freight and insurance are prepaid. The goods must be delivered in sound condition to the steamship company and a clean bill of lading secured. An insurance policy must be taken out and forwarded to the importer with other shipping documents. The seller is not responsible for the condition of the goods after delivery has been made to the steamship company. If merchandise is damaged while afloat the buyer must file claim against the carrier or the insurance company.

Many importers, however, have open policies of marine insurance and therefore prefer to buy goods cost and freight port of destination. It is customary for the exporter to cable his customer the name of the steamer carrying the merchandise. Importers who place their own insurance can therefore make the proper arrangements as soon as shipment has been made.

Prices Based Upon Weights

The buyer and seller should be careful to avoid confusion when quoting prices per hundredweight or per

ton. The net ton is 2,000 lbs., the metric ton 2,205 lbs. and the gross ton is 2,240 lbs. In domestic trade the hundredweight usually is 100 lbs.; in foreign trade the hundredweight is 112 lbs.

The Time Clause in Import Contracts

One of the most important features of all import contracts is the time clause which stipulates when shipment must be made, from either the inland point or seaborard. No importer should place an order for merchandise to be delivered at some indefinite time.

There are manyphrases used which define the time within which a shipment must be made. If shipment is made later than the time allowed, the importer has the right to reject the merchandise and refuse to pay for it. Because shipping conditions in the different ports of the world are not the same and the number of steamers sailing over the various trade routes differ, it is impossible to apply to shipments in one geographical area the terms which would apply to another.

Immediate and Prompt Delivery

The word "immediate" is construed to mean within a day or two. Sailing within a few days requires that the vessel leave the port within three or four days. If the goods are sold for "prompt" delivery the exporter is allowed a week within which to deliver the goods to a steamer and the steamer should sail within three or four days thereafter. If the seller is located in an inland point the terms "immediate delivery" and "prompt delivery" require that the shipment be loaded on a railroad car within the same period that the exporter located at a seaport would be required to make delivery to a steamer.

Immediate and Prompt Shipment

If, on the other hand, the contract calls for "immediate shipment" the foreign exporter must make delivery to a steamer which is scheduled to sail within two weeks. "Prompt shipment" calls for sailing within three weeks. If the sale is made for shipment from an inland factory instead of from seaboard the seller is required to make delivery to a railroad instead of to a steamer within two or three weeks.

Shipment Within A Specified Month

Goods are often purchased with the stipulation that shipment be made within a certain month. If the contract stipulates "June shipment from seaboard" the exporter is required to make delivery to a steamship dock during the month of June and secure from the steamship company a bill of lading dated in June. It often happens that a shipment is delivered to the steamship dock within the required month but the steamer does not actually sail until the following month. Litigation, has in some instances arisen and the courts have usually held that if merchandise is delivered in June and the steamer sails during the first week of July the exporter has fulfilled his obligations.

Conditions Affecting Interpretations of Time Provisions

If vessels sail from Sourabaya, Java, to New York only once a month, an American house cannot expect shipment within two weeks even if the sales contract calls for immediate shipment. The seller must be given a certain amount of latitude. If, on the other hand, there are sailings from London to New York three or four times a week, the American importer has a right to insist that the term "immediate shipment" be construed so as to call for shipment within two weeks.

Trade Customs

In certain industries "trade customs" have arisen which define clearly the time provisions of the sales contracts. As for example, burlap coming from Calcutta is always sold for shipment within a specified month. All burlap contracts, however, stipulate that the "alongside" clause of the bill of lading shall govern. As long as the exporter makes delivery

to the dock within the month called for by his contract and can show the steamship bill of lading proving this, the buyer has no cause for rejecting the material. If an importer in San Francisco buys a million yards of burlap for July shipment from Calcutta the exporter needs only deliver the goods to the steamship company during the month of July. The merchandise may not go forward on the expected steamer but may be delayed a month or even more. The importer must take delivery upon the arrival of the goods.

Import Freight Agents

If the foreign exporter agrees to place the goods aboard ship, he will probably employ a shipping agent of his own choosing. If, however, the selling terms make it necessary that the importer select his own agent, he should do so with the utmost care. There are all sorts and conditions of men engaged in the freight forwarding business. There are old and well-established houses doing a very large forwarding business, and there are small one-man concerns doing a very limited business.

In general, it may be stated, that it is best to select a thoroughly reliable American agent who has established his own connections or agents in the principal ports of the world. He will not only act as the importer's agent in caring for and shipping the goods from the foreign port but he will make the entries, pay the duty, and take possession of the goods upon their arrival in the United States.

Choice of Steamship Company

Should it be necessary for the importer to select the steamship company which is to transport his goods he should base his choice not only on the size of the company and the frequency of its sailings, but also on the service it renders its shippers. The larger and longer established steamship companies have many more sailings than the smaller and newer lines. This will prompt many importers to contract only with the larger companies. But it must be remembered that no business organization has attained large size without years of development and expansion.

Each had a small beginning and grew because of sound capable management. It cannot be said that all large steamship companies are good and that all small ones are bad.

Ocean Freight Rates

There is no government agency which regulates ocean freight rates as the Interstate Commerce Commission regulates railroad freight rates. Ocean rates are determined largely by competition among the steamship companies. The evil effects of rate cutting have brought the steamship companies more closely together. Conferences have been established which are attended by representatives of the majority of the steamship lines. At these meetings the ocean freight rates are agreed upon and all of the companies that are members of the conference abide by the tariffs established. Some of the small steamship companies occasionally quote lower rates in order to attract shippers. It is advisable to investigate the standing of such steamship companies before taking advantage of the cheaper rates. Importers

have met with difficulties when in some instances the cut-rate steamship lines have failed to carry out their obligations.

Packing Goods for Import

The importer must insist that his goods be so packed that they will arrive in the United States in good condition. He should remember that the final decision about the choice of the package really rests with him and not the foreign exporter. Shipping conditions in the different ports of the world vary widely. In some, primitive machinery is used for loading vessels, in others modern facilities are provided.

The importer should know the practicability of the different materials from which shipping packages are made. Barrels, crates and cases are made out of hard or soft wood; staves and boards vary from a thickness of 1/8 in. to a thickness of 1/2 in. or even more. Bags can be made out of cotton or jute cloth of different weights and sizes. Steel barrels or drums are made of different gauges which determine the thickness

of the metal.

In choosing the type of package, consideration must be given not only to the weather conditions in the country of origin but also to the climates thru which the ship passes while enroute from the port of origin to the port of destination. Merchandise imported from the Argentine passes thru the Torrid Zone while being transported from one Temperate Zone to another. During one voyage a shipment of cheese melted and damaged a valuable shipment of ostrich feathers.

Reduction in Freight Thru Efficient Packing

In considering the material from which to make a container and in determining the size of the package, the importer must bear in mind the proportion of the total freight of the shipment to be charged against the cost of shipping the container. If steel drums are used the gauge should be as thin as is consistent with safety. If cases or crates are required, light but strong lumber should be selected. Experiments should be made to determine the dimensions which will result in the least cubic measurements. Frequently it will be found that in-

creasing the length of a case and diminishing its width will result in a smaller number of cubic feet to the case than a greater width and shorter length. It should, however, always be borne in mind that strength should never be sacrificed for a saving in the cost of constructing and shipping the package.

Proper Packing as a Protection Against Theft and Pilferage::

Many importers complain because merchandise is stolen while in transit. As a rule the entire package is not stolen by the thieves. They open the case to take part of its contents. The case is then filled so that the gross weight will be the same as at the time shipped. As the steamship companies do not examine the contents of the goods when delivery is made to the steamer, they frequently refuse to allow claims for pilferage. The loss falls upon the importer or the insurance underwriters.

Importers of albumen from China have found the cases filled with rice. Albumen is worth about 70 cents per pound; rice about 6 cents per pound. During the war large quantities of natural indigo were import-

ed from Calcutta. The indigo was packed in chests weighing about 300 lbs. gross and 250 lbs. net. Each chest was wrapped in burlap. Indigo at that time was sold at about $6.00 per pound. Upon opening the chests at destination it was often found that half of the indigo had been removed and replaced by rocks. The gross weight of the chest was the same as at the time it had been shipped. From the external appearance of the package it was impossible to tell that it had been tampered with during the voyage. The sellers in Calcutta were well-known merchants and bore a reputation which would remove any suspicion of their having failed to ship the full amount.

Although the importer cannot fix the blame for theft and pilferage losses on his supplier, he feels much the same about these losses as he does when packages are broken. The importer buys goods because he needs them. If part of his shipment is lost he suffers.

The ordinary packing cases can easily be pried open at either end. They should, therefore, be securely strapped with steel bands or strong steel-wires.

As thin steel bands and wire stretch easily, nails or staples should be driven into the case at frequent intervals over the strapping. The cases should be strapped lengthwise as well as around the ends. In order to protect bales against theft, chicken-wire is often placed around the entire bale. There are special devices manufactured, including clamps and seals of various kinds, which also aid in minimizing the damage of pilfering.

Marking

In order to enable the importer, the customs authorities and the steamship clerks to identify the packages, all shipments should be marked and numbered with symbols - chosen usually by the importer. Identification is made more easily by the use of large, prominent symbols than by writing the full name and address of the consignee in small letters. Furthermore, the importer may not want his competitors to know from what sources, and in what amounts, he is receiving goods.

In marking and numbering the packages it is essential that the marks and numbers conform in every respect to those written in the commercial invoice, the consular invoice and the bills of lading. Underneath the symbol is the name of the port of destination. Below the port mark is the number of the package. The marks should be applied with indelible ink, made as waterproof as possible, directly on the boards of the shipping case. They should be on two sides of the case, never less than two inches in height, and preferably three inches. Never state the contents of the package on the container because of the incentive to theft and pilferage. It is, however, a requirement of the United States Customs laws that articles together with the cover and sides of packages be marked with the country of origin, as for example, "made in Italy". See page 56.

Commercial, Governmental, and Transportation Import Documents

The Commercial Invoice

The commercial invoice should contain full particulars of the shipment. The marks and numbers of the packages, an accurate packing list and a full description of the merchandise must be stated. The commercial invoice also states the name of the steamer, the name and address of the importer, the contract number and code word for the contract, if such is used, the price per unit of the merchandise and the total amount of the shipment. The terms of the contract - whether the merchandise is sold f. a. s. steamer or c. i, f, port of destination; and the terms of payment - sight draft or three months' sight draft, should also be included. If the sale is made f. a. s. steamer, an itemized list of the charges accruing for the account of the customer should be stated. These include ocean freight and insurance and any other expenses which the customer has agreed to pay.

The Consular Invoice

All shipments of merchandise imported into the United States must be accompanied by an invoice certified by the American Consul stationed at or near the place where the goods were sold. Shipments valued at less than $100.00 are admitted without a consular invoice. The consular invoice contains full information about the shipment. From this the Collector of Customs determines the amount of duty to be assessed.

All consular invoices are made out in the currency of the country from which importations are made or in the currency in which payment is to be made by the importer. It also contains a complete and detailed description of the shipment in order to enable the appraiser to classify the merchandise properly. The selling price and a full list of all charges incurred in connection with the shipment are given. These charges must be known to the appraiser so that he can determine the value of the merchandise at the time and place of shipment.

An affidavit is contained in the invoice which must

be signed by the exporter or his dully authorized agent. This is a sworn statement to the effect that the information given about the shipment is correct and complete. All certified invoices are affixed with a cancelled stamp. The consul charges a fee of $2.50 per invoice for his services.

The Steamship Bill of Lading

The steamship bill of lading is not only a formal receipt of the shipmaster or shipowner, covering merchandise entrusted to him for transportation, but it is also, a contract covering the terms of carriage supposed to be mutually agreed upon, and, furthermore, it is a document entitling the legitimate owner to the possession of the goods to which it relates.

Bills of lading must be written by the shippers on forms provided by the steamship company. They contain a full description of the goods to be shipped, including, the shipping marks, the number of packages, and their weights.

"Straight"and "Order" Bills of Lading

Space is left for the name and address of the importer. Shipments can be made in two ways. The goods can be consigned to the order of the importer on what is known as a "straight" bill of lading. This is a non-negotiable document and the steamship company will not surrender a shipment on straight bills of lading to the consignee without production of the bill of lading.

Many shippers use steamship bills of lading as negotiable documents and therefore consign shipments to their order or to the order of a bank with a clause stating that the importer is to be notified upon arrival of the goods. Such bills of lading are known as "order" bills of lading. The importer, to secure possession of the merchandise, must surrender a copy of the bill of lading endorsed in blank or to his order. Endorsement must be made by the party to whose order the goods are consigned.

If the steamer arrives before the documents the importer must supply the steamship company with a bank guarantee or a bond for the production of the bill of lading. The importer's guarantee will not in itself satisfy the steamship company.

Weights and Measurements of Cargo

All ocean bills of lading state that the weights and measurements supplied by the shipper at the time of delivery to the steamer are subject to revision at the port of destination. This clause protects the interests of both the carrier and merchant. When the goods are delivered to a steamship company the receiving clerk checks the dimensions given by the exporter by measuring a few packages. The weights are not checked unless there is an obvious discrepancy. Occasionally the measurements of the receiving clerk and the exporter will differ to a great extent. It may happen that there is no time for rechecking at the port of shipment. Therefore, when the merchandise is unloaded the packages are remeasured by certified public weighers in the presence of representatives of the importer and the steamship company. Freight is then paid on the basis of the landed measurements. Also, if there is a disagreement as to the astual weight of the shipment the same procedure follows. Freight is then paid on the basis of the landed weights.

"Clean" and "Foul" Bills of Lading

It frequently happens that a few packages out of a large shipment are slightly damaged. Whenever possible, exporters substitute perfect packages for the weak ones. If this is impossible, the steamship company accepts the goods insecurely packed and makes a statement to this effect on the dock receipt. This notation is then transferred to the bills of lading and relieves the steamship comapny from liability for loss or damage due to the insufficient packing. A bill of lading bearing such notation is shown as a "foul" bill of lading as contrasted with a "clean" bill of lading.

Steamship companies will, however, issue clean bills of lading even though notations were made on the dock receipt, providing the exporter signs a guarantee which relieves them from liability for doing so. The importer runs no risk of actual loss. If a shipment arrives in bad condition because the cases are weak, the importer can immediately file claim against the steamship company. If the steamship comapny has a guarantee from the exporter it , in turn, can pass the claim on to him. However, either the exporter or the steamship company must dispose of such a claim on its merits.

MARINE INSURANCE

Origin

A thousand years before the steamship or steam engine was known, ocean shipping had developed and formulated certain laws, rights and usages, which were recognized by the principal maritime nations of the Old World. These have come down to our day in many amplifications, and form the basis for a part of the distinction which exists between railroad and ocean transportation as regards liabilities for loss or damage to cargo.

The basis for the modern practice of marine insurance originated among the merchants of Lombardy in Italy about the 13th century. These were the same people to whom is attributed much of the credit for the development of modern banking practices. It was the Lombards who introduced marine insurance into England in the 15th or early 16th century, and the business quickly spread to all the maritime countries of Europe. The very words "insurance" policy

originated in Italy. Marine insurance found its greatest development in England. It is British principles and practice that still chiefly govern the insurance that protects the marine interests of the whole world.

Insurance Protection an Imperative Necessity

Protecting his shipment by some satisfactory form of marine insurance is an indispensable necessity to every importer. Steamship owners exempt themselves from liability from every conceivable kind of loss or damage, provided only they can prove the seaworthiness of their ship. In consequence, almost every sort of loss must either be assumed by the shipper as his own risk or covered by insurance. Not only is insurance necessary to guard against loss or damage, but there are certain other features connected with ocean shipping which make insurance an even more imperative necessity. For more than 2, 000 years it has been recognized by the whole maritime world that certain losses may have to be incurred in the course of a sea voyage in order to preserve the lives of the crew and at least a part of the ship and her cargo. The ship's masts may have to

be cut away, part of her cargo thrown overboard, various other sacrifices incurred, in order to safely reach land. It is recognized that such sacrifices are for the benefit of all the interests concerned, for the benefit of the ship and for the benefit of each owner of a part of the cargo. Therefore, any losses thus incurred must not fall solely on the parties who own the property actually lost or destroyed for the purpose of saving the whole venture, but all the interests concerned must contribute to make good.

This is the principle known as General Average. In other words, losses are assessed pro rata against the owners of all portions of the whole venture. When a General Average loss has been incurred, the owner of the merchandise would be notified of an assessment on him to cover General Average costs, and a bond to secure payment of that assessment would be required of him. If the goods have been covered by suitable marine insurance he turns this notification over to his insurance company, which takes care of the matter.

Otherwise, if his property be unprotected by insurance, the owner may not only lose his own goods, but he will be called upon in addition to pay an assessment to cover the cost of saving the ship and parts of the cargo not his own. Even if his own property be safe and uninjured he will still be forced to contribute toward making good some one else's losses

Simple Form of Policy

Unless by special contract, a marine insurance policy does not protect the insured against every damage which his property might suffer in the course of a voyage. The basic or simply policy usually covers merely the "perils of the sea" which follow: "Losses caused by tempests and heavy seas, including damage by salt water; damages incurred thru unavoidable accidents, such as tidal waves; collisions with either other vessels or icebergs, caused by fog, darkness or obstructions interferring with the navigation of the vessel; stranding or striking upon rocks; jettison; fire, including not only the cargo which may be

destroyed but the damage done to other merchandise in the hold of the vessel in the attempt to extinguish the fire."

Other Risks May Be Covered

Although only the above hazards are usually covered by the simple policy, almost any imaginable risk may be covered by special clauses. Cargo may be insured against theft and pilferage; leakage and breakage; it may be insured all the way from the inland factory through to the foreign port of the ocean carrier's destination, or to an interior point in a foreign country, by the warehouse to warehouse clause. Insurance against earthquakes may be procured. Goods liable to deterioration or loss through inherent vice may be protected by a suitable clause. These and other forms of additional or exceptional insurance protection may be secured by the payment of special premiums.

Selecting the Insurance Company

In placing the insurance it cannot be too strongly urged upon the importer to place thru an American broker in an American insurance company. This does not necessarily mean that foreign firms are unreliable and cannot be depended upon but it is for the reason that should a loss occur, negotiation would be more direct and involve less delay in a company located in the importer's own country than if it were placed thousands of miles away in a foreign land. There is still another and even more important consideration, the principal would be paid in American money and without loss of exchange.

The Insurance Broker

It generally will be found most profitable to enlist the aid of a marine insurance broker in securing the desired kinds of protection at the most favorable rates. Because, the broker is usually in a position thru his volume of business to bring pressure to bear upon the insurance company, and it is often thus possible for him to secure considerably lower rates than

the individual importer would be able to obtain.

The Open Policy

There is still another means of lowering insurance costs, especially for the large importer doing a steady, regular, business and receiving shipments from many sources. This is by means of the "open policy." This policy enumerates the various sources from which the goods may be shipped, the kinds of merchandise that is to receive insurance protection, the nature of the protection for which the contract is made, and the rates payable in each instance. The open policy is usually prepared to include shipments over a whole year with a stated limit of coverage per steamer. As different shipments are made from the country of origin, the importer, or his foreign agent notifies the insuring company of the particulars and the values of each shipment. These are charged against the open policy.

Collection of Insurance Claims

When an occasion arises for the collection of claims for loss or damage under Marine insurance

policies there are certain papers which must be submitted by the claimant. These are as follows: (1) A copy of the bill of lading, as evidence that the goods were actually shipped, (2) A formal sworn statement of the local representative of the insurance company, or of Lloyd's agent at port of landing, of a sworn surveyor or some other disinterested expert, as to the amount of damage sustained, (3) a copy of the commercial invoice, (4) the certificate of insurance proving interest in it.

In case of total loss, the full value for which the merchant has been insured is paid by the insuring company upon satisfactory proof of claim. But indemnity for partial loss on goods arriving at destination in a damaged condition is determined by a comparison of the sound and damaged values. The sound value is considered, for this purpose, the market value of the same goods in sound condition prevailing on the day when the value of the damaged portion is determined.

An expert is usually appointed by the agents of the insurance company to examine goods as surveyor.

He determines the cause of the damage and its nature; sometimes he may fix the damaged value, but very often he recommends that the damaged goods be sold at auction.

Subrogation

When insuring companies have paid total loss claims, they acquire title to the goods insured, and any sums which may afterward be realized from the property recovered belongs to the underwriters. This is known as subrogation. Similarly in cases of partial loss the underwriter is subrogated to the rights of the insured to the extent of the loss paid. If there afterward develops chances of recovering such losses from other parties, the underwriters will claim amounts so recovered.

Value of Property Specified in Marine Policies

Marine insurance differs radically from any other kind of insurance in the fact that the value of the property is definitely predetermined and mutually agreed upon in case of total loss. It does not matter whether the value of the property stated in the policy

be half its actual value or two times its actual value. The insuring company agrees that the value stated is the true value for which it will be responsible in case of total loss, partial damage being assessed in the fashion in which I have already stated.

There is valid reason for this practice in Marine insurance. In the first place in shipping merchandise by sea, the property is beyond the control of the owners and there are seldom chances for fraud. In the next place, merchandise that is imported incurs expenses, such as freight charges, insurance premiums, and duty fees. Furthermore there is the real loss and suffering incurred by the importer when the goods upon which he is counting to replenish his stock or to develop new business, fail to arrive, or reach him in unsalable condition. For all of these reasons, values declared for Marine insurance purposes are never actual invoice values; but invariably the invoice plus freight, plus duty, plus approximate insurance premium, plus a 10% imaginary profit.

Customs Organization and Administration

The United States Customs Service

The Customs Service regulates incoming trade into the United States proper and into the Hawaiian Islands, Porto Rico and Alaska. It not only has charge of the collection of duties on imported merchandise, but also attends to the entry and clearance of all vessels and cargoes. Revenue cutters to patrol the coasts and customs patrols on the Mexican and Canadian borders are also part of the service. The bonding of imported merchandise, the tonnage measurement of vessels, the collection of tonnage taxes and the survey and inspection of cargoes are some of the functions of the customs service. The service exercies a control, not only over the incoming and outgoing ocean liners, but also over the many small motor craft for which licenses are issued at the local customs houses. Bonded railroad cars that carry goods across the continent and to Mexico and Canada are sealed and unsealed by customs officers.

The head of the Customs Service is the Secretary of the Treasury, but actual administration of the customs laws is left to the assistant Secretary of the Treasury, who presides over a division called the "Division of Customs."

There are forty-eight customs collection districts. The larger of these are divided into ports and sometimes into sub-ports. A port of entry is any place at which a customs officer is stationed.

At the larger and more important ports, the service is represented by a collector, naval officer, surveyor and an appraiser.

The Collector of Customs

The collector is the chief officer of customs at port. His duty is to see that all vessels coming within his district are properly entered at the customs house; "that all legally responsible persons are held to their liabilities; that the other branches of the Customs Service do their work as required by law; that the duties are properly assessed and collected; and that legal disposition is made of goods entered

in bond or otherwise, or which are unclaimed; that smuggling and other frauds are prevented; that just fines, penalties and forfeitures are imposed and enforced." He is required to report fully to the Treasury Department at Washington on all that pertains to the customs revenue in his district.

The duties of the collector and his assistants not only include the collection of the tariff on goods entered for consumption, and the proper entry and clearance of vessels, but also the forwarding of goods imported by parties in other sections of the country through the port of entry, and on which the duties are collected at the place of destination.

The Naval Officer

Naval officers are established at the ports of Boston, New York, Philadelphia, Baltimore, New Orleans, San Francisco and Chicago. This office is a "check office" on the collector of customs. It in no way concerns our navy. The navalofficer also checks the collector's records of vessels, accounts, and manifests. All imported merchandise must be manifested, and no

vessel can enter the port without filing her manifest at the customs house.

It is the duty of the naval officer to verify the clerical work done in the collector's office. He is sworn to correct errors, and neglect; and to enforce strict compliance with the federal laws. His action is coördinate with that of the collector " in all matters affecting the collection of customs revenue, so far as they involve the amount of money collectable and collected; the proper record, adjustment, correction and certification of accounts; and the enforcement of all laws and regulations for the safety of the revenue."

The Surveyor of the Port

The surveyor of the port is really the police officer of the port. In this capacity he has custody, pending its proper disposition, of merchandise landed from foreign countries. After the ships unload, the surveyor and his subordinates visit and inspect the

vessel, check off the import cargo, superintend the delivery of the imported merchandise, and the loading for exportation of all goods exported or shipped under government control.

Subject to the collector, "the surveyor superintends and directs all inspectors, weighers, measurers, and gaugers within the port; visits by proxy, all arriving vessels, and reports in writing every morning to his superior all that have arrived from foreign ports on the preceding day - specifying the names and denominations of the vessels, the masters' names, whence arrived, whether laden or in ballast, the nationality, and if American, whether or not the masters have complied with the law requiring a definite number of manifests of the cargo on board."

The appraiser of the port examines and appraises imported merchandise designated by the collector for examination. He reports the market value or wholesale price of such goods on the date of shipment in the principal markets of the country from which it was exported. This report is made the basis for the assessment of duty.

CUSTOMS PROCEDURE

Administration Within the Custom House

The Customs Service at the various custom houses is arranged in sections.

The Marine division has charge of the entry, clearance and registration of all vessels. The incoming vessel must first "enter". That is, her captain must bring his manifest or statement of cargo; list of passengers; supplies; and other papers to this division before he can secure permission to discharge his vessel's cargo. The manifest is made up from the bills of lading of goods in the cargo. On the showing of this and the other documents submitted by the ship's officers, the vessel is "entered".

Making the Entry

Clearance of merchandise is effected by filing entry papers in the entry division. The form is prescribed by the Secretary of the Treasury and is uniform at all ports.

The customs entry form, prepared by the importer or

his agent, must accompany the steamship bill of lading and the consular invoice. In this paper, the shipment is described by shipping marks and numbers, and the highest market value of each kind of merchandise is specified.

Upon this entry sheet the collector of customs estimates the duty based upon the declared invoice values and according to the description of the goods in the invoice.

Merchandise not entered within forty-eight hours after the arrival of the steamer is sent into a government bonded warehouse as unclaimed. It is for this reason that the importer cannot emphasize too strongly the necessity of the shipper forwarding the papers immediately after shipping the goods so as to arrive here in time to clear the merchandise.

Special Provisions for Perishable Goods

Entry for clearance of merchandise ordinarily cannot be presented at the custom house until the arrival of the vessel, but in the case of current periodicals, perishable fruit, or goods affected by other exceptionable circumstances necessitating immediate delivery, preliminary entry is granted in advance of the docking of the vessel, enabling the importer to obtain delivery without delay. Should the consular invoice not have been received,

under the special provision for caring for "perishable" goods, the approximate duty is paid and the goods are allowed to be withdrawn. Upon the arrival of the necessary papers the duty is adjusted.

Examination of the Goods - Consumption Entry

The duty paid at the time of filing the documents is only a deposit, when the required amount is deposited, the importer is given a delivery permit. But before the entire shipment can be delivered, the appraiser must make his examination and report. When an invoice covers goods that are all of the same general character, the collector designates 10% of the total quantity (in no case less than one entire case or package) for examination. Especially bulky merchandise, such as machinery and raw skins, are frequently examined at the pier or the importer's warehouse, but the general run of imports is examined at the appraiser's stores. If the goods are entered for immediate consumption the remainder of the importation is deliverable direct to the importer.

The Warehouse Entry

The importer does not always wish to take possession of the goods immediately. Frequently, for example, merchandise is imported in advance of the importer's

needs. In such cases the goods may be placed in a government bonded warehouse at the importer's expense.

By this plan the importer does not have to pay the duty immediately on the merchandise, but only when and as the goods are taken out of bond. This enables the importer to place his orders at the most favorable times and to obtain the price concessions of large purchases without having to pay immediately the heavy duties entailed.

It is the practice to class all goods in bonded warehouses as tho they had not yet been imported, the duty being assessed only when the goods are withdrawn.

However, it is the market value of the goods at the time of original importation that is the basis of the later payment of duties, regardless of the value of the goods at the time of withdrawal. In the case of goods dutiable on a weight basis, the goods are weighed upon arrival, and the report of this weight is likewise the basis for assessing the duty; this is the rule regardless of any loss or gain in weight which may have taken place during the interval between arrival and

and withdrawal.

Goods may not remain in a bonded warehouse for longer than three years. If at the expiration of that time the merchandise is not withdrawn it will be considered abandoned and will be sold as unclaimed.

Withdrawal from Bonded Warehouse

Goods may be withdrawn from bond for consumption, for transportation in bond or for export.

The procedure in withdrawing goods for consumption is simpler than that in the case of the original entry, and generally release can be effected in a few hours. This is because the duty has already been estimated, and examination and appraisal have taken place.

Goods in bonded warehouses may be transported in bond to any other customs port, and there either again placed in a bonded warehouse or immediately released on payment of duty. Either appraised or unappraised merchandise may be transported in bond under government supervision.

Immediate Transportation Entry

In the case of goods arriving at a seaport for consignees in the interior of the country it is desirable to avoid unnecessary opening of the goods at the port of first arrival. Accordingly an agent, usually a custom house broker, files an immediate transportation entry. This authorizes the loading of the goods in bonded cars, sealed by customs officials, without having been examined or appraised. The collector of customs at the initial landing port forwards the advice of the shipment to the collector at destination where the goods are handled as though they had been landed there direct from the steamer.

Transportation and Exportation Entry

The immediate transportation and exportation entry is employed when the goods are to be shipped thru the country under bond. It is made at the port of entry and the bond is cancelled when the shipment leaves the borders of the country.

Payment of The Duty

After the preliminary clerical work has been completed in the entry division, and the amount of duties estimated, they are paid to the cashier.

The Appraisal of The Goods

After the customs entry has been made, the collector of customs sends the invoice to the appraiser. This offical investigates the shipment, sees that the goods are in accordance with their descriptions in the invoice, and determines their market value.

If he finds that the goods are as described in the invoice, both in value and in rate of duty, they are immediately delivered to the importer.

Should the appraiser find that the invoice does not correctly describe the importation and that there are inaccuracies in its statement of value or rate of duty, the collector may require the importer to produce all or any part of the goods which have been delivered to him.

If it is apparent that the error was in the rate of duty only, and that there was no intention to defraud

the customs, no action is taken - other than to secure a further deposit to cover the difference between the duty that was paid on entry and that to be paid. Foreign invoices do not always contain an exact statement of the goods they cover, and it is not infrequent that the entry declaration will misstate (without any wrong intent) the paragraph of the law, and consequently the rate of duty applicable.

Dutiable Value

The importer is required to declare the true cost of the goods on the date of purchase. He should, by memorandum attached to the entry declaration, raise the invoice figures to the market value on the date of shipment in the principal markets of the country from which they were shipped. The "date of shipment," for merchandise exported from seaport countries, is the date of the departure of the vessel, not the date of the invoice. As to shipments from inland countries, the "date of shipment" is the date the goods cross the frontier.

The obligation rests with purchaser to declare the true market value of his goods, notwithstanding any purchase at a lower price. He should consult recent price lists and increase the invoice price, if necessary, to the price he would have to pay for the goods if he had bought them on the date of shipment.

Not only is the importer required upon entry to raise the invoiced price to declare the market value, but he may also deduct so much as may be necessary to bring the invoiced price down to the market, or wholesale price, in the country of shipment and on the date of such shipment. An importer who has bought at retail may deduct for duty purposes so much as he can show is the difference between the wholesale and the retail price of the goods.

Any addition to the invoice price and likewise any deduction must be made upon original entry - that is, at the time the invoice is presented to the collector of customs.

Liquidation

The duty first paid at the custom house was

a deposit subject to adjustment. Not until the appraiser has reported can the final accounting be made - in the meantime tho the goods may be delivered.

The liquidating division or bureau of final accounting, determines the actual amount of duty due , without regard to duties which have been deposited. With the invoice, and the appraiser's report showing both the value and the advisory rate of duty before him, the clerk figures the actual duty in practically the same manner that was used in making the original entry prior to the appraiser's report, but with greater accuracy.

Whenever the difference between the amount of duty paid upon original entry and the liquidated duty is caused by an error in selecting the rate of duty, no penalty is charged against the importation - unless the case is one of fraud.

If, however, the appraiser finds that the goods are of higher value than that declared in the original entry, additional duties (penalties) are levied. These are figured on the basis of an additional duty

of 1 per cent for each 1% that the appraised value exceeds the entered value. Whenever the appraised value exceeds the entered value by more than 75%, the entry is presumed to be fradulent and the goods undervalued are declared forfeited. If delivery has been made and the goods sold, the value of the goods is recoverable from the importer.

Appeal

In the administration of so important offices, as that of collector of customs, and appraiser, many controversies will arise. Those requiring judicial determination are first referred thru the collector's office to the Board of General Appraiser, while others requiring administrative action are referred to the collector of customs or direct to the Treasury Department.

Marking of Imported Merchandise

The law contains general regulations concerning the marking of shipments for import which must be observed by importers who wish to bring their merchandise in with the minimum of delay and friction.

"All articles of foreign manufacture or production, capable of being marked, stamped, branded or labeled without injury must be clearly labeled to indicate the country of origin or production. Imported cutlery must, in addition, bear the name of the purchaser and maker. The cartons or boxes in which foreign merchandise is imported should show the quantities contained in each in order that the appraiser can the more readily verify the contents and check them up with the invoice."

FINANCING IMPORT SHIPMENTS

Open Account

Much of our business with foreign sellers is conducted on open account. The importer is granted a credit on the books of the shipper against which he may order merchandise up to a stipulated amount, paying within the time agreed upon.

This is especially advantageous for the buyer. It allows him considerable leeway in payment, and thus enables him to take advantage of a favorable rate of exchange and propitious conditions in the money market before making his remittance.

Remittances

These accounts are frequently paid by means of a banker's draft drawn to the order of the foreign seller and mailed to him abroad. This is not a documentary draft, but is an order by the American bank on its foreign representative to pay the seller so much money - the cost of the invoice.

Many of the large firms in the United States, however, maintain bank accounts in the foreign cities nearest to which they make their purchases, and pay their accounts in exactly the same manner they would for purchases in our own markets.

The Letter of Credit

The letter of credit is in essence an authorization given by a banker to a shipper stating the terms under which the banker will be willing to pay out money to the shipper or negotiate his drafts upon the importer. It may be revocable or irrevocable. That is the bank may bind itself to make the payment regardless of whether or not the importer countermands his instructions- or it may state merely that it has instructions to make such payments. An irrevocable letter of credit issued by a banker is usually regarded as practically equivalent to a guarantee of payment, always provided that the banker himself is responsible.

Use of the Letter of Credit

When the importer wishes to open a letter of credit he fills out a formal blank supplied by the bank which states in detail the terms under which the letter of credit is to be opened. These include the amount of credit; the expiration date; the documents to be supplied by the exporter, i. e., how the bills of lading are to be made out (to order, to the order of the importer, to the order of the bank); whether insurance is to be provided by the exporter or the importer; the number of commercial invoices, certificates of weight or analysis, etc. The bank then sends to the importer the letter of credit issued in duplicate together with the form guarantee which the importer must sign. The guarantee constitutes the contract between the bank and its client. The terms of the guarantee require that the importer pay a certain commission to the bank for its services and meet at maturity the drafts drawn under the terms of the letter of credit.

Payment Under the Letter of Credit

Upon receipt of the letter of credit the exporter prepares the shipment and forwards it in strict compliance with the terms of the credit. He then forwards the shipping documents to the bank. After receiving the shipping documents, the accepting bank examines them and compares them very carefully with the letter of credit. If it is

found that the exporter has fulfilled the terms of the letter of credit, payment will be made under the cash credit, or drafts will be accepted under the time credit.

The accepting bank then forwards the documents to the issuing bank. If a cash credit has been opened and no payment has been made at the time the credit is opened, the bank will present the documents to the importer who will pay the bank as in the case of a sight draft. If an acceptance credit has been opened, the bank on presenting the documents to the importer will ask for a deposit of security or the signing of a trust receipt.

The trust receipt is an agreement on the part of the importer to hold the goods at the disposal of the bank until payment of the invoice amount. The bank is furthermore entitled to collect at any time from the importer the proceeds of the sale of any portion of the merchandise which has already been disposed of and to secure from the importer the unsold balance. The importer further agrees to cover the goods with insurance and to protect them in every way.

At the maturity of the time draft the importer pays the bank the invoice amount and the trust receipt is then released. If a credit is opened in the currency

of the country in which the importer is located a check for that amount is sent to the bank. If a credit is opened in a foreign currency payment is made at the current rate of exchange on the date the draft matures.

Bank Charges

For issuing a letter of credit the bank charges a commission which ranges from one-fourth, to one and one-half per cent, according to its terms, the amount, the time, and the risk involved. The cost of a sight or cash credit is the least. The cost of a time credit is necessarily higher, increasing with the length of time and the consequent added risk. An extra commission is charged for a confirmed credit. The issuing bank shares its commission with its foreign correspondent.

Advantages to Importers

Exporters, as a rule name more favorable prices to the importer who supplies them with a letter of credit than to the importer on whom they must draw drafts and so assume the credit risk. By obtaining an agreement

from the issuing bank to release the goods to him upon his signing a trust receipt, the importer is enabled to secure possession of the goods, sell them and sometimes use the proceeds of the sale before having to pay his bank upon maturity of the draft.

Drafts

European shippers also finance a great part of their trade by means of drafts. This method is applied frequently to the large shipments of crude raw materials, running into hundreds of thousands of dollars per shipment, on which the percentage of profit is very small.

These drafts may be drawn against the importer at sight, or at 30, 60, or 90 day's sight, or at 30, 60, or 90 days from date of the invoice, depending upon the nature of the particular transaction to the terms agreed upon. The drafts may be documentary drafts or they may be "clean" that is, unaccompanied by documents, or the documents may be duplicates only, the originals having gone forward direct to the importer.

The Sight Draft

If the terms of sale call for cash at the port of destination, the draft will be drawn at sight, with all negotiable documents attached, the latter to be delivered to the importer only upon payment by him of the amount due. If credit is to be extended, as is usually the case, the draft will be drawn at the agreed upon number of days after sight, or possibly from date of the invoice, the attached documents being delivered to the importer upon his acceptance of the bill.

If complete confidence is placed in the importer he may receive the documents direct, the corresponding draft which he is to pay at sight or upon which he is to place his acceptance coming to him as a clean bill thru the channel of a bank. This last method, of course, approximates open account operations in that the merchandise is delivered to the importer solely upon the security of his own credit. However, by drawing for the shipment the exporter avoids uncertainty as to the time of payment and, in the case of a time draft

accepted by the importer, he has binding evidence of the latter's indebtedness.

The Time Draft

Time drafts may be drawn with documents deliverable against payment instead of against acceptance. This is usually done when the shipper wishes to allow the importer time for payment and yet does not wish to relinquish his hold upon the merchandise. In this case, the customer places his acceptance upon the draft and has the advantage of time in which to raise the funds to meet it. In making payment, he may, if he chooses, anticipate the maturity of the draft and so obtain a discount for the unexpired time.

Amounts For Which Drafts Are Drawn

Whether the sum for which the draft is drawn will be equal only to the amount of the invoice, or to the invoice plus collection expenses, or to the invoice plus collection expenses and interest charges, will depend upon the nature of the agreement

between the shipper and the importer. If the margin of profit on the sale is small, the exporter may insist that the collection charges be borne by the importer, and that in addition he pay interest from the time of shipment until the money is in the hands of the seller. This interest charge is in some cases a considerable item, including as it does, not only the period for which the draft has to run but the transit time both ways as well.

In submitting his order to the foreign seller, in any country, the American buyer must be especially careful to see that the method by which the shipment is to be financed is clearly understood.

FOREIGN EXCHANGE

Origin of Exchange

The word "exchange" is self-explanatory. In by-gone times the community accomplished the interchange of products by means of a system of barter. Goods of a certain kind were traded for goods of another kind and thus by actual exchange purchases and sales were made .

Such a system, however, had many inconveniences; it was an awkward and clumsy arrangement at best, and in the present state of our commercial development its use would be obviously unthinkable. A medium of exchange was found necessary - something that would represent value, and that could be transferred at will in exchange for desired goods or services or other valuable consideration.

The precious metals, because of their scarcity - which made them valuable - and their compactness and durability, were early accepted by primitive civilization as the most convenient medium and standard of value. In time, as trade developed and extended over wide territories, necessitating the transfer of money in large quantities over long distances, the use of gold and silver coins became inconvenient. Out of this necessity certificates of value were brought into existence. As early as the days of the Roman Empire bills were in common use and the State made it legal for one person to sell a debt to another. When the selling was legalized there had to be created some

evidence of the transfer, some instrument to represent that the debt had passed to another. These instruments, in the form of written documents, may be called the primitive bills of exchange. Their advantages were early recognized by the Italians and gradually their use spread over Europe, becoming common as early as the 13th century. Today, practically the whole commerce of the world is carried on by means of bills of exchange.

Indebtedness of Nations to Other Nations

Between the communities of different countries their exists continuous intercourse. This intercourse is highly varied, but may be divided into the following main classes:

1. Interchange of merchandise and securities
2. Operation of steamships, cables, mail and similar services
3. Tourist travel, involving heavy expenditure abroad
4. Immigrant population and its remittances to relatives abroad.

In every instance these functions involve the making of a payment between the two countries, and this means the purchase and sale of exchange, or its equivalent.

Exchange as Influenced by Costs of Paying Debts

Now, intercourse between countries is never exactly balanced, and the innumerable transactions arising between them are being settled all of the time. This means there is constantly a demand for and a supply of foreign remittances and the rate of exchange will be governed by that demand and supply.

As a further explanation of this, let us consider exchange between London and New York.

Exchange would be low (indicating a strong demand for United States dollars or a heavy offering of pounds sterling) under any of the following conditions.

1. Large shipments of cotton, grain etc. from the U. S.
2. High money rates in N. Y., attracting capital from London for investment.
3. The issue of a U. S. Government loan involving preparation by investors by the liquidation of some of their foreign investments.

These conditions need only to be reversed to secure circumstances causing a high rate of exchange:

1. Large shipments of manufactured articles and securities from London to New York.
2. High money rates in London, attracting capital from New York for investment in London.
3. The issue of a British Government loan or other loan operation in Great Britian involving liquidation of foreign securities by British investors and participation by United States investors.

In actual international exchange operations, the transactions are so numerous and of so varied a nature that it is almost impossible to formulate rules governing the fluctuations of exchange. Rates may advance considerably in the course of one day because of a sudden demand, and relapse later when this emergency has ceased. It is the function of the exchange banker, not the importer to supply the demand and absorb the offerings of foreign exchange.

Foreign Exchange Banking

Foreign exchange bankers may best be compared to "jobbers" in bills representing foreign exchange. They accumulate large amounts of exchange which in time become credits on the books of their correspondents. These credits are offset by debits arising out of similar operations. This system of debits, thus avoids unnecessary and costly shipments of coin except for ultimate balances. In principle it is identical with the clearing house in domestic banking, and in stock and produce trading.

Arbitrage in Exchange

International bankers also operate in the arbitrage of foreign exchanges - that is buying or selling bills drawn on a second country, but payable in a third country. For example, it may happen that on a given day there is a considerable offering of sterling bills in the New York market, while at the same time their may spring up a strong demand for francs. Under such conditions, the banker operating in foreign exchanges may secure a profit in selling his sterling to bankers in France, thus securing

francs at a lower price than he could secure them in his own market.

Foreign Exchange and the Importer

Even bankers who maintain specially equipped departments for this purpose and who are daily informed of all occurances in all markets are likely to draw wrong conclusions. How much more probable is it then, that the merchant will incur losses if he tries to make extra profits out of the exchange end of his mercantile operations?

The merchant should figure his profit on the basis of a certain exchange rate obtainable when he figures the whole transaction and he should be satisfied with that profit.

Of course, there are operations in exchange which are entirely legitimate on the part of the importer. This, however, will not occur when the dollar letter of credit is used, but will crop up in cases where a letter of credit payable in a foreign currency is used. The following example will best illustrate such an opera-

tion: A New York importer buys coffee in Santos and obtains from his banker a letter of credit available at 90 days in sterling on London. In that case the shipper in Santos will issue dcafts at 90 days on the London banker and the New York buyer will have to provide cover in pounds sterling to his New York banker in proper time. He would probably have from four to five months in which to buy the necessary pounds sterling. Now, if at any moment during the interval the sterling rate of exchange is particularly attractive, he could take such an opportunity to secure thru his bankers delivery of the exchange at the time he requires it, but on the basis of the then prevailing low rates.

It is difficult to say how a firm can best post itself on exchange fluctuations. Reasonable proficiency is to be attained only by long experience and by continuously watching general conditions - such as the movement of commerce and trade between the country in question and other countries; the monetary movements in the interior; loan operations; and many other factors.

SEAPORTS AND TERMINAL FACILITIES

Control of Terminals

The control of ports in the United States is shared by the federal, state, and municipal authorities. The federal government because of its power to regulate foreign and interstate commerce, has control of the navigable channel and fixes the lines beyond which shore structures may not extend. Between the pier line and the shore, the state government is supreme, while the shore itself is usually controlled by the municipality.

In most states the control of the state's jurisdiction is vested in a board of harbor commissioners. A harbor master is usually delegated authority to regulate the time of loading and unloading, to collect fees and to arbitrate disputes between owners, shipmasters and crews.

Terminal Facilities

Terminal facilities of ports, varying in the size and character of the harbor and the nature and

extent of its commerce, include docks, wharves, piers, switching tracks, belt railroads, warehouses, elevators, and various other arrangements for transferring and storing freight and for housing passengers.

Ocean steamship piers of the best and most modern description are from 800 to 1,200 feet long and from 250 to 400 feet wide. They are usually covered by one or two-story "sheds" for the protection of freight and passengers. Ocean vessels are moored upon both sides of piers, on which, or along the margins of which, railroad tracks are laid.

Generally, large vessels cannot move from wharf to wharf after freight; their time is too valuable; freight must be brought to them. The earning capacity of vessels is often determined by the number of trips they can make within a given time. Rapid loading and unloading are consequently essential to secure the minimum of idle time and the maximum earning capacity.

There are two important problems which our ports fact today (1) To provide more piers to accommodate the increased volume of commerce passing thru each port.

(2) to make full use of every pier in order to reduce the present relatively excessive pier costs. These demands have created the necessity for mechanical devices which will not only distribute freight over a pier more quickly, and at less expense than is now possible by "man and truck" methods, but which will also, transport cargoes directly from railway train to vessel's hold or vice versa.

After being discharged from a vessel, freight must be transferred to another vessel to some other wharf in a distant part of the harbor, to a railway terminal, to the warehouse of the importer or to the custom house. It is taken from one part of the harbor to another by lighters, by trucks, or by a belt railroad. To minimize delays, cost and re-handling involved in lighterage or trucking, some municipal authorities are seeking to extend public control of terminals, to improve the coordination between rail and water facilities. They are giving special attention to the building or extension of belt and spur railway lines which shall connect the

piers of ocan steamers with railway, freight, and other warehouses, and even with large industrial plants.

Freight - Handling Machinery

The most efficient means of unloading consists of large travelling cranes which run on tracks alongside the ship. A long arm reaches over the ship, takes its cargo, and swings it from the ship to a railway car or a truck or into the freight shed on the wharf.

In order to make such modern equipment effective the pier must be spacious, the sheds must have ample capacity so the freight may be moved away as soon as deposited by the crane and distributed according to destination and reshipment.

Where no movable cranes are available the ships' tackle may be used. The masts of the ship and its booms form the crane while an auxiliary engine supplies the power. Such tackle operates at low cost and is fairly efficient, tho lacking in flexibility and reach.

On account of the narrow piers and the general use of the box car, American ports have very few cranes. Many piers have what is called a "cargo mast," the load is hoisted by the ship's engine but lowered to the pier by the stationary engine on the pier. It is fairly economical, but cannot compare with the crane which lifts, without rehandling, from shiphold to railroad car.

SOME PROBLEMS OF THE IMPORTING WHOLESALER

In this consideration of the problems of location, warehousing, and cartage, they will be discussed primarily from the viewpoint of the importing wholesaler. No particular line of imported merchandise will be considered as it is the author's opinion that these basic principles may be applied whatever the type of goods handled, if sound judgment is used in adapting them to the nature of the enterprise, its size, and its geographical location.

LOCATION

Importance

A good location may be the firm's best asset, a poor one may be the chief cause of failure despite the use of good judgment in the adoption of merchandising policies. Location is of equal importance to the newcomer and the established house.

Assuming that a new importing wholesale house is to be established, which is to do a national business, the first problem is that of selecting a community in which to locate. Undoubtedly the most suitable distributing center would be New York, Boston, Philadelphia, Atlanta, New Orleans, or San Francisco. In fact, most of the large national importing wholesalers are located in those cities, not only because of their superior transportation facilities, both in-coming and out-going, but also because of their favorable situation in regard to most of the consuming population of the country.

New York was formerly the strategic location sought after by importing wholesalers doing a national business, irrespective of the line of merchandise handled. But as years rolled by, population has spread westward and to the south, means of transportation and communication rapidly developed all over the country, and new wholesale centers came into existence. The result has been that many of these newly developed wholesale centers have become more profitable as a location for large importing wholesale houses than New York.

The marketing of coffee is an illustration of this. In former years coffee was sold from New York throughout the Mississippi Valley, while the present tendency is to restrict the New York market to the territory lying east of Cleveland, Ohio. The area between Cleveland and Omaha is supplied from New Orleans, and the territory west of this zone draws its supplies from San Francisco. This readjustment of market areas in the coffee trade is attributed almost entirely to transportation influences, such as preferential rates from New Orleans to various points throughout the Mississippi Valley, and the nearness of San Francisco to the Far West, to which the product can now be shipped from Brazil via the Panama Canal.

Factors in The Selection of a Site

One of the first things to consider in selecting the site for an importing wholesale house is the extent and nearness of the transportation facilities, for adequate means of assembling the goods from their foreign sources of supply and of shipping them to customers are absolutely essential to success.

When the goods handled are bulky, such as dry goods, fruits, coffee, sugar, etc., the task of assembling them is very difficuly. Importing wholesalers have found that congestion of the streets in some of the larger cities has reached such a stage that cartage costs have been increased to alarming proportions. This factor makes it highly desirable that the location be near the waterfront.

A wholesale establishment should also be centrally located. In the retail trade accessibility of a location is reckoned by the volume of traffic, both on foot and in the street, that is passing by, but in the wholesale field, it relates to the ease with which it can be reached by prospective buyers. An accessible location is served by street cars, has adequate parking space for automobiles, and is close to the main retail district, thereby resulting in better opportunities and greater facilities for attracting trade. Finally, an accessible house is so located that in hauling merchandise to the freight terminals for shipment to customers, few busy streets are crossed and much traffic congestion is avoided.

It is highly important that all of these factors be considered in arriving at a sound decision on the problem of location.

WAREHOUSING

Private Warehouses

Large importing wholesale houses, often find it to their advantage to do their own warehousing. This is because the amount of space they require is large enough to permit the maintenance of a private warehouse and the necessary organization to operate it.

On the other hand, for many importing wholesalers, the investment in buildings, equipment, and overhead, of the private warehouse, is so great that it is more economical for them to use public warehouses. Or if they do maintain a private warehouse, the overflow of goods during seasons of heavy importations, is cared for in public warehouses. Again, a public warehouse may be used in conjunction with a branch office located in an inland city for the purpose of making quicker deliveries to customers.

Public Warehouses

When goods are brought to the public warehouse they must be accompanied by a manifest showing the

numbers, marks, and brands, of the merchandise. These identifying marks are then placed on the warehouse receipt by the warehouseman.

Storage rates, unless by special contract, are quoted on the basis of a "month's storage". It is customary, although not an invariable rule, to consider the storage contract cancelled if the goods are sold - even though not removed from the warehouse. The seller cannot transfer his storage contract, the new owner must make one for himself.

The Warehousemen's"Risk for The Goods"

The warehouseman's liability for loss or damage to goods in his warehouse is limited by some such statement as the following inserted in the storage contract:

"Liability of the warehouse for loss or damage to goods stored shall in no case exceed $8 per cubic foot or 25 cents per pound, according as weight or size determines the storage rate, unless excess value is declared by the customer at the time the goods are stored".

This limit of $8 per cubic foot is sometimes named as $5. It is usual to assess 1-10 of 1% per month for the value in excess of the stipulated maximum.

For customs bonded warehouses, the government allows a higher charge for goods of excessive value. One-eighth of 1% of the appraised value per month is given in the General-Order Rates for:

"Articles, such as amber, bird skins, egrettes, gold and silver bullion and manufactures of gold and silver, human hair, jewelry (real), medicinal preparations of high value, meerschaum, essential and volatile oils, paintings, platinum, precious stones, vanilla beans, watch movements, watch cases, or any other non-enumerated articles of high value."

Insurance

Insurance protection against fire, and sprinkler leakage, for goods in a public warehouse, is usually at the expense of the owner. The warehouseman frequently provides this coverage by means of a blanket policy, for which the individual owner pays his proportionate share.

The importing wholesaler should inquire into the insurance rates before selecting a warehouse for his goods. Low fire insurance ratings mean more than a saving in cost. They indicate lessened hazzards for the goods in store. Of two warehouses at the same location, that one with the lower insurance rate is likely to be better constructed, better protected, and to show better house-keeping - it is apt to be the most desirable place of storage.

Storage of "Prohibited Articles"

General commodity warehouses usually refuse to accept explosives, highly inflammable goods, and hazardous merchandise. Most of them also decline goods of a vegetable-fibre nature, such as flax, hemp, grasses, jute, kapok, pampas, plumes, and raffia. The reason for this is that these goods not only add to the risk of fire, but are subject to tremendous expansion when wet. Not only do they adsorb moisture from the air, but in the case of sprinkler leakage or of being deluged with water from the fireman's hose they have been known

to expand to such an extent that they thrust out the brick walls of the warehouse, ruining the building as well as its contents.

The refusal of the ordinary warehouse to accept these prohibited goods makes it possible for further specialization in the industry. There are, accordingly, warehouses which specialize in the storage of chemicals, or of vegetable-fibres. Located on the Pacific Coast, are warehouses that handle only essential oils, Oriental oils, etc. They have facilities for bulk or cask storage, together with equipment for transferring from one to the other, as well as for coopering, gauging, and even for refining and purifying, these oils.

Calculating The Storage Charge

The warehousemen's association has devised "a standardized basis for rates from which the individual warehouseman may compute rates." This basis is the "standard warehouse pile", also known as the "lot unit". It is the, "greatest quantity of the commodity that can be stored, in bulk, on 120 square feet of floor space,

at not exceeding 250 pounds weight per square foot, or piled not to exceed 8 1/3 feet high."

From this unit, calculated for each commodity, and multiplied by the "rate per foot of space" for the particular warehouse, is obtained the amount to be charged. This rate would be that for the ideal package - that is, the one which in piles 8 1/3 feet high would weigh 250 pounds. This is a weight of 34 1/2 pounds per cubic foot.

Should the weight be less than 34 1/2 pounds per cubic foot, the rate for storage would be based on its bulk. If, however, it weighs more than the standard of density, the charge would be based on its actual weight. That unit - bulk or weight - is selected which yields the greatest revenue.

Many packages cannot be piled 100 inches high because of their irregular shape or peculiar nature. Such goods take a higher rate than the "base" rate. If they are of such irregular shape that they cannot be piled at all, as uncrated machinery, for example, the rate must be based on per square foot for floor space actually occupied.

Although the base rate varies between warehouses, the relativity of rates founded upon that base rate remains constant. If a warehouse in New Orleans, for example, quotes a rate of 20% lower or 20% greater for a given commodity than a New York concern, it is likely that the same percentage under or over the New York standard charges will prevail for other commodities.

The rate for storage of a commodity at a particular city or warehouse can be ascertained only by inquiry. Each warehouse has its own base rate, the amount it expects to earn per square foot of floor space, although in a general way the rates bear constant relation to one another.

Bonded Warehouses

Customs bonded warehouses are highly important to the importing wholesaler. They aid him materially in financing his business, by making it unnecessary for him, in many cases, to pay duty on his merchandise until it is sold.* Bank interest on money otherwise tied-up in duties is thus saved, together with property taxes which might be levied were the goods in an unbonded warehouse.

* See page 49

These benefits may be secured regardless of whether the importing wholesaler does his own warehousing or stores his goods in bonded public warehouses, for all or part of a private warehouse may be covered by a Custom House bond.

The bonded warehouse, or the bonded portion of it, is under guard of a United States Storekeeper, placed in charge by the Collector of Customs, although at the expense of the owner. This protection is in addition to the surety bond on the warehouse itself.

Occasionally the Collector will "challenge" the stocks of a bonded warehouse. This means that a physical count or appraisal of the bonded warehouse is made in order to ascertain that all is in accordance with the records. He counts the units in store, and weighs, samples, or tares them for his own satisfaction as to accuracy.

The Collector of Customs at each port elaborates a "schedule of rates governing General Order Stores". This is approved by the Secretary of the Treasury and becomes the standard for rates for storage and handling of

merchandise that passes through the bonded warehouses of the port.

The following are examples of the rates generally prevailing in bonded warehouses in Boston:

Coffee in 100 pound bags: storage is 7 cents per month with a handling charge of 8 cents.

Green or dried fruits in cases: 8 cents a hundred pounds per month for storage with a handling charge of 12 cents.

Fruit juices, Prunes, etc. in casks: 1 cent per gallon a month for storage and the same amount for labor.

Dry Goods in packages up to 25 cubic feet: 38 cents per month for storage with a handling charge of 45 cents. Each additional cubic foot over 25 carries a charge of 2 cents for storage and also for labor.

CARTAGE

A surprisingly large number of importing wholesalers employ independent carting companies to do their hauling for them.

The reason appears to be that because the carting companies are specialists in their field, their service proves, in many cases, to be more economical than could be secured by the importing firms with equipment owned by themselves. The carting companies know the cost of operating different kinds of equipment. Consequently, they are apt to select equipment most suited to their needs and maintain it at low costs. They are also in a superior position in the selection of drivers, for they are constantly in touch with sources of supply.

Carting companies are even willing, where a client is able to use a given number of trucks or wagons, to display his firm name on the equipment so used. The usual arrangement for payment calls for a flat rate per hundredweight - altho many firms make special contracts with their truckmen on a weekly, monthly, or yearly, basis.

The following are examples of the prevailing rates for custom house trucking in Boston - that is for carting bonded merchandise. They are compiled in much the same manner as the General Order storage rates. They are also a fair index of what the importing wholesaler may expect to be charged for his unbonded goods, altho, if his carting requirements are only moderate in size, he may be forced to pay higher rates, while, if his volume of hauling is very large, he may possibly, under special contract, be able to lower them.

Fruits, green or dried: 8 cents per 100 pounds and 2 cents for each additional 25 pounds.

Fruits, brined, in casks etc.: 8 cents per 100 pounds

Cocoa, Coffee, and Nuts, in bags of 100 pounds: 8 cents

Teas, 1/2 chests: 6 to 8 cents

Dry Goods, up to 25 cubic feet per package: 50 cents, with a 2 cent additional charge for each cubic foot over 25

From this it can be seen that the average charge per hundredweight is 8 cents. These rates are based upon hauls up to a mile in length, 50% more is charged for each additional mile or fraction.

Custom House Trucking

The trucking of imported merchandise on which the duty is unpaid, is known as custom house trucking. Either the owner of the goods under bond, or an independent trucking company may do the carting. The requirements in either case are a strict compliance with the government regulations in securing bond, together with special licenses for both the vehicles and their drivers. Those who have secured the priviledge of hauling this type of merchandise are known as bonded truckmen.

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